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Arizona Corporation Commission

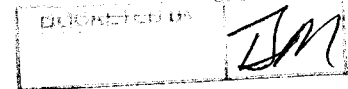
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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

MAR 4 2013



IN THE MATTER OF THE  
APPLICATION OF TUCSON ELECTRIC  
POWER COMPANY FOR THE  
ESTABLISHMENT OF JUST AND  
REASONABLE RATES AND CHARGES  
DESIGNED TO REALIZE A  
REASONABLE RATE OF RETURN ON  
THE FAIR VALUE OF ITS  
OPERATIONS THROUGHOUT THE  
STATE OF ARIZONA

Docket No. E-01933A-12-0291

**NOTICE OF FILING SUMMARY OF  
SETTLEMENT TESTIMONY  
(SETTLEMENT AGREEMENT) ON  
BEHALF OF FREEPORT-  
MCMORAN COPPER & GOLD INC.  
AND ARIZONANS FOR ELECTRIC  
CHOICE AND COMPETITION IN  
SUPPORT OF THE SETTLEMENT  
AGREEMENT**

Freeport-McMoRan Copper & Gold Inc. and Arizonans for Electric Choice and  
Competition (collectively "AECC"), hereby submit the Summary of Settlement Testimony  
(Settlement Agreement) of Kevin C. Higgins on behalf of AECC in the above captioned  
Docket.

RESPECTFULLY SUBMITTED this 4<sup>th</sup> day of March 2013.

FENNEMORE CRAIG, P.C.

By

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Patrick J. Black

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Competition

1 **ORIGINAL and 13 COPIES** of the foregoing  
2 **FILED** this 4<sup>th</sup> day of March 2013 with:

3 Docket Control  
4 ARIZONA CORPORATION COMMISSION  
5 1200 West Washington  
6 Phoenix, Arizona 85007

7 **COPY** of the foregoing was **HAND-DELIVERED/**  
8 **MAILED/EMAILED** this 4<sup>th</sup> day of March 2013 to:

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

In the Matter of the Application of Tucson )  
Electric Power Company for the )  
Establishment of Just and Reasonable Rates )  
And Charges Designed to Realize a ) Docket No. E-01933A-12-0291  
Reasonable Rate of Return on the Fair )  
Value of Its Operations Throughout the )  
State of Arizona )

**Summary of Settlement Testimony of**

**Kevin C. Higgins**

**on behalf of**

**Freeport-McMoRan Copper & Gold Inc. and**

**Arizonans for Electric Choice & Competition**

**March 4, 2013**

1 Mr. Higgins' Direct testimony recommends approval of the Proposed Settlement  
2 Agreement filed by the ACC Staff on behalf of the Agreement's Signatories on February  
3 4, 2013. The proposed Agreement provides a comprehensive resolution of the issues in  
4 the Tucson Electric Power ("TEP") general rate case. In Mr. Higgins' opinion, the  
5 Settlement Agreement produces just and reasonable rates and is in the public interest.

6  
7 The Settlement Agreement offers the following benefits to customers:

- 8  
9 • It establishes a level of base revenues for TEP that allows the Company a  
10 reasonable opportunity to earn a fair return on its investments, while minimizing  
11 the rate impact on customers as much as reasonably possible.
- 12 • It proposes a reasonable rate of return and capital structure for TEP that equitably  
13 balances the interests of shareholders and customers.
- 14 • It spreads the overall base rate increase among customer classes in an equitable  
15 manner.
- 16 • It cures a number of rate design problems in the Company's filed case, enabling  
17 customers to continue to respond to good price signals through well-designed  
18 time-of-use ("TOU") rates.
- 19 • It provides for a reasonable amortization period for recovery of energy efficiency  
20 investments and an equitable mechanism for cost recovery.
- 21 • It provides a narrowly-tailored Lost Fixed Cost Recovery ("LFCR") mechanism  
22 in lieu of full revenue decoupling, while offering an opt-out rate design for  
23 residential customers who choose not to participate in the LFCR. For customers  
24 with billing demands of 3000 kW or greater, the settlement agreement addresses  
25 through rate design TEP's concerns over fixed cost recovery associated with  
26 energy efficiency investments.

27  
28 Mr. Higgins also addresses the letter to the parties filed in this docket by Commissioner  
29 Gary Pierce on February 1, 2013. Mr. Higgins notes that the Settlement Agreement calls  
30 for adoption of an Energy Efficiency ("EE") Resource Plan as proposed by Staff. AECC  
31 supports this provision in the Settlement Agreement as part of the overall package. At  
32 the same time, it is Mr. Higgins' understanding that the Settlement Agreement is not  
33 intended to hinder any efforts the Commission may wish to undertake to revise its EE  
34 policies. Thus, adoption of the Settlement Agreement by the Commission and, with it,  
35 adoption of Staff's recommended EE Resource Plan for the coming year, should not  
36 preclude the Commission from exempting TEP from the EE Rules going forward, if the  
37 Commission determines that such an exemption is appropriate. Alternatively, the  
38 Commission could consider amending the EE Rules to address the situation of an electric  
39 utility that recovers its EE funding using a return on investment approach. Mr. Higgins  
40 also recommends that the Commission retain a separate DSM surcharge even if EE costs  
41 are booked as a regulatory asset and treated comparably to a component of rate base. He  
42 believes it still makes sense to separately state these costs and make them known to the  
43 public.

1 In his Responsive testimony, Mr. Higgins recommends that the Commission reject the  
2 recommendation of SWEEP witness Jeff Schlegel to require TEP to file a proposal for  
3 full revenue decoupling.